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2005
Intelnet acquires 'Sparsh' domestic BPO

Intelnet, the second largest BPO in India after Genpact, provides middle and back office services to domestic customers, including the State Bank of India, Aircel and BSNL. On the international BPO, it focusses on banking, travel, hospitality and healthcare.

There is no overlap in the businesses of Intelnet and Serco, with most of their functions being complementary, says Susir Kumar, chief executive officer, Intelnet, who has held this position from the time the company was founded in 2000. All employees will remain on the rolls.

Serco has been dealing mostly with government agencies and the public sector across 30 countries, employing 70,000 employees, including 5,000 scientists. This is where acquiring Intelnet could help. Serco could gain from Intelnet's expertise in dealing with the private sector, as also increase its exposure in the BPO segment, says Kumar. With Intelnet in its stable, Serco could increase the share of its BPO operations to as much as a tenth from the almost negligible level at present, he affirms.

Serco focusses on front line service. Traditionally, a BPO would do mid or back office. The future model would be a front-and-back-office, with technological capability. Intelnet was a good value and fit for Serco, Kumar feels.

India's BPO industry is likely to grow by 12-15 per cent annually till 2020, claims Kumar, citing Nasscom estimates. The domestic market is estimated to grow 20 per cent plus and global BPO by 8-10 per cent, giving Serco an added reason to extend its toehold in India.

In the past, companies would tap services of a BPO for the 'tactical reason' of saving costs. But, today, BPOs are an integral part of the functions of any global-sized company, he says. It is no more just an option. But for a company to be able to succeed globally, it needs size and end-to-end as well as domain capability, among others.

"Now, we are part of a \$7 billion company and no longer a \$300 million company," Kumar says. "Post-acquisition, more doors will open to

2000
Started as a joint venture of TCS and HDFC

Log on to India for BPO services. This seems to have been underlined this time by Serco Group plc, which has agreed to pay £385 million (about ₹2,862 crore) for Intelnet Global Services to grow its business process outsourcing business manifold and strengthen its presence in India.

The acquisition, one of the largest among BPO companies in India, did surprise some. Still, surely, this may not be the last and many others will tumble out of the pipeline. India, along with China and the Philippines, is among the so-called scale players, while some countries from East Europe, Africa and Latin America have a smaller share. Yet, the potential seems immense, with estimates of the industry size globally at \$350-500 billion.

2004
TCS sells stake to Barclays, which owns it 50-50 with HDFC

Serco is present in an array of services – from running prisons in the UK to managing air traffic in Atlanta; running metro rail in Dubai and hospitals in Australia. Other services include managing an atomic weapons establishment in the UK, along with Lockheed Martin and providing information system support to the UK's Defence Science & Technology Laboratory.

The company set foot in India in December 2008, by acquiring InfoVision group, a domestic BPO business operator, which was providing customer services, database management and back office services in India. Acquisition of Intelnet will be a quantum jump for Serco in India as far as the number of employees is concerned. From 8,000 employees, Serco will grow to 40,000, absorbing 32,000 from Intelnet.

'Sectors are firing on all cylinders'

Blackstone, which is making two-and-a-half times return on its investment in Intelenet, could invest in a BPO again, if it meets all its criteria, says **Akhil Gupta**, chairman, Blackstone India, in an interview with **Sumit Sharma**.



Blackstone was invested in Intelenet for just about four years and exited. What were the considerations? Wasn't it earlier than usual for private equity firms to do so?

The average exit is after five years and the key is finding the right team. It was important for us that Intelenet finds a good home. The management is comfortable with the new owners.

It's never happened that seven companies from the sponsor's portfolio were given to the BPO arm. We helped them expand from one to seven countries, hiring 40 salespeople. We were actually growing the company and not ratcheting it up for sale. But the management met Serco and they thought this was the right thing to do. We probably wanted to get a little more but we also wanted to do right by our management team, do right by our customers and it was an okay valuation.

Who initiated the move?
Serco. They were looking worldwide for an acquisition.

What was your philosophy behind investing in a company like Intelenet?

We liked the sector and the management team. Valuation was reasonable at this point and, more importantly, there was synergy between other portfolio companies and Intelenet. We could add value to Intelenet. About 27 per cent of its revenue came from our seven portfolio clients – that's quite remarkable for a four year period.

Do you envisage investing in similar ventures in the future?

We are a sector-agnostic company. We look at every company on its own merit. We look at the management for competency, integrity, willingness to work with us, our ability to add value. We look at comparative strengths of the company – and any company

that meets these, we invest in. If it happens to be a BPO sector again, we will invest.

How much does Blackstone expect to invest by the end of 2011?

We have committed \$1.7 billion in 17 deals so far. This business is not prone to any forecast. A deal is not a deal till it's done. A deal can be punched in two months and I may do a billion. And for a year I may do nothing. It's difficult to predict how much I will do between now and then.

Which sectors offer the best potential to investors like you?

Indian economy is expected to grow 7-8 per cent. Sectors are firing on all cylinders, which mean any sector can be attractive. Every sector can provide attractive companies. It's like a tide lifting all boats – Indian economy being the rising tide and sectors being the boats. It's a question of finding the right companies.

Are valuations on offer fair at present?

We always think the valuations are too high. We value each deal in its own merit. The only way we are able to make handsome returns is by seeing if we can make a difference to the company's performance. One can't get 25 per cent IRR by getting lucky. You may get lucky once, but not again and again. One has to make a value addition.

Do you expect more BPOs to be acquired post Intelenet?

The problem is that many Indian BPOs are public. Acquiring a public company is more difficult in India than acquiring a private company. (In case of a listed company), a sponsor will have to get out in FPO.

us than they would to our local competitors. If you want to be part of a bigger deal, you would better be part of a global set-up."

Intelenet will now have IBM, Accenture and Capitas as competitors, leaving domestic contenders such as Genpact, WNS, Firstsource and EXL Service behind. Post-acquisition,

2007 HDFC, Barclays exit Intelenet
• Intelenet goes for a management buy-out with Blackstone (80 per cent for Blackstone and the rest with the management)
• Intelenet acquires Travelport, and Upstream, a global BPO company

Intelenet expects its growth to accelerate and then add any missing links. One such area is the information technology which, Kumar

says, he will "build, buy or acquire locally or globally".

Kumar's confidence is almost infectious. And why not? From leading a company founded a decade back by Tata Consultancy Services and Housing Development Finance Corporation, Kumar had no more than a few dozen employees to start off with. Owners changed over the years, as TCS decided to go on its own, Barclays entered and exited and re-entered and, finally, in 2007, Blackstone made its entry. After Blackstone's arrival, Intelenet grew its revenue three-fold, while doubling the number of its employees to 32,000.

So, who are the winners?

A clear winner in the deal is private equity giant Blackstone group LLP. The New York-based company saw its initial investment of \$200 million made in June 2007 increase almost two-and-a-half times in four years, says Akhil Gupta, chairman, Blackstone India. One of the world's most successful private equity investors, Blackstone owns 66.25 per cent of the BPO, while Barclays own 12.75 per cent, and HDFC, 4.5 per cent. Top officials of Intelenet hold the remaining 16.5 per cent.

2010 HDFC acquires 4.5 per cent in Intelenet
• Barclays buys 12.75 per cent in Intelenet

Runner, racer, musician, manager

Hyman sees the international BPO market growing quickly, as companies seek out new ways to improve their service and reduce costs

Christopher Rajendran Hyman, chief executive of Serco group plc, is no ordinary boss. The incredibly driven 47-year-old leader loves fast cars and competes in Formula 3 car races (his one-time favourite book: *Driven to Extremes* by Michael Schumacher); is an athlete who once sprinted 100 metres in 10.8 seconds; and plays music, having cut an album of Gospel songs. Deeply religious and a born-again Christian, Hyman is known for putting his faith above everything. "My faith is very strong. My whole life, I believe, is driven by God," he once said. "I am no genius. What I am successful for, is listening to God." And to put money where the mouth is, the teetotaler Hyman, who fasts every Tuesday, follows the practice of tithing – giving away 10 per cent of his salary (£1.86 million in 2010) to the local Pentecostal church.

There is more. Hyman was appointed the National Ambassador by the Prince of Wales for Business in the Community, and is the chairman of Prince of Wales' charity In Kind Direct. A trustee of the Africa Foundation, Hyman was conferred a CBE in 2010 for his services to business and to charity. He visited India for the first time in 2005 and later in 2008.

His company, the Serco group, described by *Guardian* as "probably the biggest company you've never heard of," is equally versatile. It began in 1929 when Radio Corporation of America founded a UK branch called RCA Services to support the cinema industry. Today, the UK-headquartered company manages 700 mainly public-service contracts across 40 countries. It runs trains, operates hospitals, schools & prisons and manages air traffic control systems and missile defence systems, among many others, on behalf of the governments. In fact, Serco is said to employ more scientists in the UK than anyone else, and thousands of its employees are former civil servants. Two-fifths of company's revenues flow from its international operations.

Hyman, a British citizen of Indian origin, who was born and raised in South Africa, grew up under apartheid, and qualified as an accountant from Natal University. He worked for Arthur Andersen in South Africa until he landed in London in an exchange programme. Hyman joined Serco in 1994 as finance director for Serco Europe. After spending eight years in a variety of roles, he was appointed chief executive in 2002. From then on, Serco has witnessed

heady growth, transforming into a global behemoth, which largely operates behind the scenes. According to Hyman, who is sometime described as 'evangelical', Serco thinks differently and offers innovative ideas to governments which deliver greater value for money and improve public services.

Governments and possibly God have worked the formula for Serco and Hyman, ensuring double-digit growth and vast profits. Between 2002 (when Hyman took charge) and 2010, Serco more than trebled its turnover from £1.3 billion to £4.3 billion and nearly quadrupled its profit before tax to £213 million from £57 million earlier. Fortunately for Serco, these were also the years when governments were increasingly outsourcing public services like health, education, transport and even law and order as the tax-paying citizens demanded better deliveries.

However, though the strategy of concentrating on public services has paid off in the last decade or so, the increasing spending cuts by governments is now pushing Serco to look beyond the public services and foray into private sector. "One needs to diversify as we grow," Hyman once told a journalist. "We made a good job of the



public sector. There is a clear opportunity (to)...move into the private sector".

And for opportunities, Serco is looking the India way. In December 2008, it acquired 60 per cent stake in Infovision for £13.3 million. "India is a substantial, fast-growing economy and our market entry promises excellent opportunities," Hyman said then. Recently, Serco enlarged its India presence by lapping up Intelnet for £385 million. This time around, Hyman sees the "international BPO market growing quickly as companies seek out new ways to improve their service and reduce costs," and expects Serco to "access new markets and strengthen its existing propositions."

The key to Serco's success this far has been extending better public services than the governments can do. With the gaze partly shifting to private sector, one will have to wait and see whether this flexibility will reap rich rewards.

• ANOOP BARANI

While Blackstone got handsome returns, it also added value to the venture by helping it grow overseas to seven new locations, added new clients in travel and health segments. It was easier for Intelnet to acquire Travelport, as it was a portfolio company of Blackstone. About a quarter

of Intelnet's revenue came from seven companies in Blackstone's portfolio, says Gupta (see interview).

After being tossed around a few times before landing in Blackstone's lap, the top managers of Intelnet had offered shares to its 400 key employees. "Some employees were

in tears when they realised they could get extra money worth about 4-5 years' salary," says Sandeep Aggarwal, executive vice-president, Intelnet. "Such gestures bring in so much more loyalty and passion," he adds.

• SUMIT SHARMA